

**PAW PAW LAKE REGIONAL JOINT
SEWAGE DISPOSAL BOARD**

FINANCIAL REPORT

March 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Paw Paw Lake Regional Joint Sewage Brd	County Berrien
Fiscal Year End March 31, 2006	Opinion Date September 25, 2006	Date Audit Report Submitted to State September 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

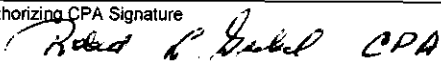
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) GERBEL & COMPANY, P.C.		Telephone Number 269-983-0534	
Street Address 830 PLEASANT STREET, PO BOX 44		City ST. JOSEPH	State MI
		Zip 49085	
Authorizing CPA Signature  CPA		Printed Name ROBERT L. GERBEL	License Number 3953

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD

FINANCIAL STATEMENTS

March 31, 2006

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	I-III
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	2
Statement of Revenues and Expenses	3
Statement of Changes in Net Assets.....	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6-12
Supplementary Information:	
Statement of Revenues, Expenses, and Changes in Net Assets - Budget and Actual	13

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Management's Discussion and Analysis

About the Facility

The Paw Paw Lake Regional Joint Sewage Disposal Board (the "Joint Board") serves the Coloma and Watervliet regional area with wastewater treatment services. The Joint Board was established in January 1971 as a not-for-profit, tax-exempt organization when the cities and townships of Coloma and Watervliet agreed to jointly acquire, own and operate a sewage treatment and disposal facility. Act 129 of Michigan Public Acts of 1943 is the state legislation authorizing the municipalities to establish the Joint Board. The Joint Board was established to control, manage, and operate the joint sewage facility. The Joint Board consists of two appointed representatives from each of the four municipalities. Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired.

The Joint Board provides wastewater treatment services to the cities and townships of Coloma and Watervliet. The connected service population is approximately twelve thousand. Treatment capacity of the facility is 2.5 million gallons per day. For the fiscal year ended March 31, 2006, the Joint Board treated an average flow of 810 thousand gallons per day.

Usage, listed by gallons processed, by municipalities during the fiscal year, is as follows:

	Year ended March 31	
	<u>2006</u>	<u>2005</u>
City of Coloma	39,356,300	57,213,900
Coloma Township	63,680,100	81,374,900
City of Watervliet	48,842,058	95,194,599
Watervliet Township	<u>143,894,400</u>	<u>146,011,500</u>
Total	<u>295,772,858</u>	<u>379,794,899</u>

Financial Highlights

The Joint Board's total net assets were \$838,875 at March 31, 2006, of which \$53,272 was invested in capital assets. At March 31, 2005, the Joint Board's total assets were \$932,392 of which \$51,841 was invested in capital assets.

The Joint Board's total operating and administrative expenses exceeded operating revenues for the fiscal years ended March 31, 2006 and 2005. Total operating expenses were \$547,487 and \$574,840 for the years ended March 31, 2006 and 2005. Operating revenues were \$424,812 and \$530,739 for the years ended March 31, 2006 and 2005.

Overview of the Financial Statements

This report consists of three parts - *Management's Discussion and Analysis* (this section), the *basic financial statements*, and *supplemental information*. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Management's Discussion and Analysis

Condensed Financial Information

The following table represents condensed information about the Joints Board's financial position for the past two fiscal years. Total net assets decreased by \$93,517.

	Fiscal year ended March 31	
	<u>2006</u>	<u>2005</u>
Current assets	\$ 431,997	\$ 655,912
Capital assets	53,272	51,841
Long-term investments	454,584	345,610
Total Assets	<u>\$ 939,853</u>	<u>\$ 1,053,363</u>
Current liabilities	<u>\$ 100,978</u>	<u>\$ 120,971</u>
Net assets:		
Invested in capital assets	\$ 53,272	\$ 51,841
Unrestricted	785,603	880,551
Total Net Assets	<u>\$ 838,875</u>	<u>\$ 932,392</u>
Total Current Liabilities and Net Assets	<u>\$ 939,853</u>	<u>\$ 1,053,363</u>

Operating Income and Expenses

The following table represents condensed financial information about the Joint Board's revenues and expenses. The net loss was \$(93,517) and \$(29,655) for the years ended March 31, 2006 and 2005, respectively.

	Fiscal year ended March 31	
	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 424,812	\$ 530,739
Operating expenses	547,487	574,840
Operating loss	\$ (122,675)	\$ (44,101)
Investment income	29,158	14,446
Net loss	<u>\$ (93,517)</u>	<u>\$ (29,655)</u>

Results of Operations

- Operating revenues from the municipalities decreased by \$79,611. This is due to the decrease in water flow used by the municipalities during the year.
- Operating expenses decreased by \$27,353.

Capital Assets

Ownership of the infrastructure passed to the municipalities in May of 1993 when the related construction debt was retired. Capital assets include the equipment, building, land, and vehicles. The capital plan is directed toward maintaining the existing facilities. The Joint Board is currently debt free.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Management's Discussion and Analysis

Budget Variances

The 2006 fiscal year ended with actual operating income lower than budgeted income by \$87,888. Operating expenses exceeded budgeted amounts by \$120,675. Significant variances include:

- Actual municipal fees collected were \$98,378 lower than what was budgeted.
- Group health and life insurance costs of \$71,588 exceeded budgeted amounts of \$60,000 by \$11,588.
- Other operating expenses of \$15,376 exceeded budgeted amounts of \$7,600 by \$7,776.
- Depreciation expense of \$15,539 was not budgeted.

Contacting the Joint Board's Management

The purpose of this management's discussion and analysis is to provide an overview of the current and prospective financial condition of the Joint Board's operations and physical assets. Questions concerning this report may be directed to Mr. T.C. Melville, Plant Manager.

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

September 25, 2006

INDEPENDENT AUDITOR'S REPORT

Paw Paw Lake Regional Joint
Sewage Disposal Board
Coloma, Michigan

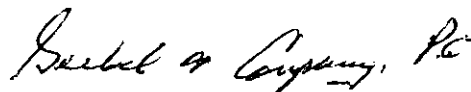
We have audited the accompanying financial statements of the business-type activities of the Paw Paw Lake Regional Joint Sewage Disposal Board as of and for the year ended March 31, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Paw Paw Lake Joint Sewage Disposal Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Paw Paw Lake Regional Joint Sewage Disposal Board as of March 31, 2006 and the change in financial position, including cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages I through III are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Right. On time.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Net Assets
March 31, 2006

Assets

Current Assets:

Cash	\$ 109,232
Short-term investments	250,000
Accounts receivable	63,953
Prepaid insurance	<u>8,812</u>

Total Current Assets \$ 431,997

Land	23,408
Building and equipment, net of accumulated depreciation	29,864
Long-term investments	<u>454,584</u>

Total Assets \$ 939,853

Liabilities

Current Liabilities:

Accounts payable	\$ 12,133
Salaries and wages	4,278
Accrued vacation and sick leave	77,992
Payroll taxes	2,022
Retirement plan payable	4,213
Other	<u>340</u>

Total Current Liabilities \$ 100,978

Net Assets

Invested in capital assets	\$ 53,272
Unrestricted	<u>785,603</u>

TOTAL NET ASSETS \$ 838,875

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Revenues and Expenses
For the Year Ended March 31, 2006

Operating Revenues:

Municipal fees and other service fees:

City of Coloma	\$ 56,555
Township of Coloma	88,903
City of Watervliet	68,132
Township of Watervliet	<u>200,732</u>

Total Municipal Fees \$ 414,322

Miscellaneous 10,490

Total Operating Revenues \$ 424,812

Operating Expenses:

Salaries and wages	\$ 201,284
Payroll taxes, retirement plan, and benefits	18,597
Group insurance - health and life	71,588
Operating supplies and services	62,202
Utilities	63,602
Depreciation	15,539
Insurance - liability and workers' compensation	58,706
Repairs and maintenance	26,916
Legal, accounting, and audit services	5,827
Board meeting fees	7,850
Other operating expenses	<u>15,376</u>

Total Operating Expenses \$ 547,487

Operating loss \$ (122,675)

Nonoperating Income and Expenses:

Investment income 29,158

NET LOSS FOR THE YEAR \$ (93,517)

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Changes in Net Assets
For the Year Ended March 31, 2006

Net Assets - Beginning of year	\$ 932,392
Net loss for the year	<u>(93,517)</u>
NET ASSETS - END OF YEAR	<u>\$ 838,875</u>

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Cash Flows
For the Year Ended March 31, 2006

Cash Flows From Operating Activities:

Cash received from customers	\$ 408,897
Cash payments to suppliers for goods and services	(346,359)
Cash payments to employees for services	<u>(199,623)</u>

Net Cash Provided by Operating Activities \$ (137,085)

Cash Flows From Investing Activities:

Investment income	\$ 26,978
Purchase of investments	(220,872)
Proceeds from investments	<u>378,083</u>

Net Cash Provided by Investing Activities \$ 184,189

Cash Flows (Used in) Capital Activities:

Cash payments for the purchase of equipment	<u>\$ (16,970)</u>
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Net Increase (Decrease) in Cash \$ 30,134

Cash at beginning of the year 79,098

CASH AT END OF THE YEAR \$ 109,232

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating Income (Loss) \$ (122,675)

Adjustments to reconcile net income to net cash provided
by operating activities

Depreciation	15,539
(Increase) decrease in accounts receivable	(15,915)
(Increase) decrease in prepaid insurance	5,959
Increase (decrease) in accounts payable	(8,827)
Increase (decrease) in accrued liabilities	<u>(11,166)</u>

Net cash provided (used) by operating activities \$ (137,085)

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2006

NOTE 1 - NATURE OF ENTITY AND ACCOUNTING POLICIES

A. Nature of Entity

The Paw Paw Lake Regional Joint Sewage Disposal Board is a joint venture of the cities of Coloma and Watervliet and the townships of Coloma and Watervliet, Michigan, and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to acquire and operate a sewage disposal system.

The accounting policies of the Paw Paw Lake Regional Joint Sewage Disposal Board ("the Joint Board") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies.

B. Accrual Basis of Accounting

The organization recognizes revenues when earned. Expenses are recorded when incurred.

C. Capital Assets

Property and equipment are stated at cost. Expenditures for repairs and maintenance are charged to operations as incurred and major renewals and betterments are capitalized. Depreciation is recorded on straight-line method over the estimated useful lives.

Buildings	20 years
Equipment	5-10 years
Vehicles	5 years
Office equipment	5 years

D. Operating Revenue and Nonoperating Revenue

Operating revenue represents billings to municipalities based on flow rates metered by the Joint Board as well as charges to local businesses for industrial processing. Nonoperating revenue includes other revenue, such as investment income, that does not directly fund general operations of the plant.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Joint Board considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws authorize the Joint Board to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Joint Board is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Joint Board has designated a local bank for the deposit of its funds. The investment policy adopted by the Joint Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, repurchase agreements, and bankers' acceptances. The Joint Board's deposits and investment policy are in accordance with statutory authority.

Investments are presented in the financial statements at fair market value. All investments are considered temporary. Premiums and discounts are not amortized. Interest is accrued on investments.

For the year ended March 31, 2006, investment income and losses consisted of interest and dividend income of \$26,978, realized gain of \$28,260 and unrealized loss of \$26,080.

The Joint Board's cash and investments are subject to several types of risk, which are explained in more detail below.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Joint Board's deposits may not be returned to it. The Joint Board does not have a deposit policy for custodial credit risk. At year-end, all of the Joint Board's bank deposits (certificates of deposit, checking and savings accounts) were insured. The Joint Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Joint Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Joint Board does not have a policy for custodial credit risk. At year-end, approximately \$398,908 of investment securities were held by an investment company.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Joint Board's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased, with a 270-day maturity. At year-end, the maturities of investment are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity Less than One Year</u>	<u>One to Five Years</u>
Federal home loan mortgage	\$ 167,209	\$ -	\$ 167,209
GNMA guaranteed pass through certificates	66,673	-	66,673
Governmental and agency securities	87,661	-	87,661
Certificates of deposit	383,040	250,000	133,040
Total Investments	<u>\$ 704,583</u>	<u>\$ 250,000</u>	<u>\$ 454,583</u>

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Joint Board has no investment policy that would further limit its investment choices. At year-end, the Joint Board held no debt securities other than U.S. government or U.S. government agency securities.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

A summary of changes in property, plant, and equipment for the year ended March 31, 2006 was as follows:

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance March 31, 2006</u>
Land	\$ 23,408	\$ -	\$ -	\$ 23,408
Building	\$ 103,235	\$ -	\$ -	\$ 103,235
Equipment	549,625	1,756	-	551,381
Vehicles	37,065	15,214	(9,027)	43,252
Office equipment	31,589	-	-	31,589
Subtotal	\$ 721,514	\$ 16,970	\$ (9,027)	\$ 729,457
Less: Accumulated Depreciation	(693,081)	(15,539)	9,027	(699,593)
Total Capital Assets Other Than Land	<u>\$ 28,433</u>	<u>\$ 1,431</u>	<u>\$ -</u>	<u>\$ 29,864</u>

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2006

NOTE 4 - ACCRUED VACATION AND SICK LEAVE

Vacation and sick pay consist of :

Vacation pay	\$ 10,334
Sick leave accumulated	<u>67,658</u>
Total	<u>\$ 77,992</u>

Vacation pay is earned depending upon years of service and is payable upon termination. Sick leave benefits represent only that amount that would be payable should employees use the benefit. Unused sick pay will not be reimbursed upon termination.

NOTE 5 - RETIREMENT PLAN

Plan Description - Substantially all employees of the Joint Board are covered under the contributory defined benefit Municipal Employees' Retirement System ("MERS"), an agent, multiple employer public pension plan. MERS provides retirement, survivor and disability benefits to municipal employees under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220, as embodied in the MERS Plan Document (as revised). MERS issues annually a publicly available actuarial valuation. The report includes the determination of liabilities and contribution rates resulting from the participation of the Joint Board in MERS. The report may be obtained by writing to MERS, 447 N. Canal Rd., Lansing, Michigan 48917, or by calling (517) 622-4401.

All full-time permanent employees are eligible to participate in MERS. Participants who retire at or after age 60 with ten years of credited service, age 55 with 15 years of credited service, or age 50 with 25 years of credited service are entitled to a retirement benefit equal to the participant's final average compensation, as defined, multiplied by 2.5% for each year of credited service. Under the program, participants contribute 3% of their first \$4,200 of annual compensation and 5% of portions over \$4,200.

Funding Policy - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The Joint Board has authorized any required employer contributions.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Employee Retirement Plan
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll (b) - (a) (c)
1998	\$ 489,345	\$ 435,537	\$ (53,808)	112%	\$ 133,056	0%
1999	560,856	473,315	(87,541)	118%	149,765	0%
2000	614,988	542,949	(72,039)	113%	163,334	0%
2001	660,581	634,844	(25,737)	104%	174,818	0%
2002	675,816	694,727	18,911	97%	152,620	12%
2003	718,442	731,330	12,888	98%	155,544	8%
2004	767,687	832,082	64,395	92%	162,236	40%

Required Supplementary Information
Schedule of Employer Contributions

Fiscal Year Ended March 31,	Annual Recommended Contribution	Actual Contributions	Percent Contributed
1999	\$ 5,220	\$ 5,220	100%
2000	6,000	6,000	100%
2001	8,020	8,020	100%
2002	10,996	10,996	100%
2003	12,630	12,630	100%
2004	12,540	12,540	100%
2005	17,040	17,040	100%

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Municipal Employees' Retirement System of Michigan
Required Supplementary Information
Summary of Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2004
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Amortization period	30 years
Assets valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.5%
Total payroll growth	0%
Cost-of-living adjustments	2.5% Non-Compound

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Notes to Financial Statements
March 31, 2006

NOTE 6 - RISK MANAGEMENT

Insurance - The Joint Board is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Joint Board has purchased commercial insurance for employee health, property, liability and workers' compensation.

Industrial Waste Pretreatment Program Regulations - The Joint Board's sewage treatment and disposal operations are subject to regulations and governmental authorities. The complexity of these regulations results in many areas of uncertainty and requires interpretation. The regulatory agencies may question Joint Board interpretations. If the Joint Board's interpretations do not prevail, remedial actions and/or civil penalties could be assessed that could have an adverse effect on the Joint Board's operations.

NOTE 7 - AVAILABILITY ON LINE OF CREDIT

The Joint Board has a line of credit available from its investment broker at a variable interest rate, secured by the amount in its investment account. During the year the Joint Board took no advances on its line of credit. The balance at March 31, 2006 on the line of credit was zero.

PAW PAW LAKE REGIONAL JOINT SEWAGE DISPOSAL BOARD
Statement of Revenues, Expenses, and
Changes in Net Assets - Budget and Actual
For the Year Ended March 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues:			
Municipal fees	\$ 512,700	\$ 414,322	\$ (98,378)
Miscellaneous	<u>-</u>	<u>10,490</u>	<u>10,490</u>
Total Operating Revenues	<u>\$ 512,700</u>	<u>\$ 424,812</u>	<u>\$ (87,888)</u>
Operating Expenses:			
Salaries and wages	\$ 200,000	\$ 201,284	\$ (1,284)
Payroll taxes, retirement plan, and benefits	25,100	18,597	6,503
Group insurance - health and life	60,000	71,588	(11,588)
Operating supplies and services	61,000	62,202	(1,202)
Utilities	60,000	63,602	(3,602)
Depreciation	-	15,539	(15,539)
Insurance - liability and workers' compensation	57,500	58,706	(1,206)
Repairs and maintenance	27,500	26,916	584
Legal, accounting, and audit services	6,000	5,827	173
Board meeting fees	10,000	7,850	2,150
Other operating expenses	<u>7,600</u>	<u>15,376</u>	<u>(7,776)</u>
Total Operating Expenses	<u>\$ 514,700</u>	<u>\$ 547,487</u>	<u>\$ (32,787)</u>
Operating income (loss)	\$ (2,000)	\$ (122,675)	\$ (120,675)
Nonoperating Income and Expenses:			
Investment income	<u>27,000</u>	<u>29,158</u>	<u>2,158</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ 25,000</u>	<u>\$ (93,517)</u>	<u>\$ (118,517)</u>
Net Assets - Beginning of Year	<u>932,392</u>	<u>932,392</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 957,392</u>	<u>\$ 838,875</u>	<u>\$ (118,517)</u>

Gerbel & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Fifth Third Bank Building ■ 4th Floor ■ 830 Pleasant Street ■ P.O. Box 44 ■ St. Joseph, Michigan 49085-0044

September 25, 2006

Paw Paw Lake Regional Joint Sewage Disposal Board
Coloma, Michigan

In connection with our audit of the books and records of the Paw Paw Lake Regional Joint Sewage Disposal Board for the year ended March 31, 2006, we offer the following comments and recommendations regarding bookkeeping and accounting matters.

1. During the audit it was noted that employee files were not locked in a secure location. Since these files contain medical information, social security numbers and other private information, they should be locked at all times.
2. The Board should issue Internal Revenue Service form 1099-MISC, U.S. Information Returns to individuals who serve as independent contractors to provide services of more than \$600 in a calendar year. This would include Board members and payments to attorneys.
3. During the audit we have learned that the employees at the Board received holiday bonuses. These bonuses were not reported on the employees' W-2's. All compensation paid to an employee needs to be reported on the employee's W-2 form.
4. During the audit we noted several instances of late payments to the employees' retirement plan. Since these payments were made late, the employee has lost the interest that could have been earned during this time.
5. We recommend that the Board monitor the budget on a monthly basis. If amendments need to be made to the budget, the Board should amend that budget line item at a board meeting. At year end a total of seven categories of budgeted expenditures were overdrawn. Total budgeted income for the year was budgeted for \$25,000; however, actual results were a \$93,517 loss. No budget amendments were made during the year.
6. During the audit year the Board did not receive board monthly financial reports during the board meetings. According to the Michigan Department of Treasury Uniform Accounting Procedures, the board "must be provided periodic financial reports". We were informed that the Board hired a new bookkeeper after the audit year and financial reports will be given to the Board on a monthly basis.
7. The Board needs to be aware of the maturities of the Board's investments. These maturities should be scheduled out and reviewed periodically. During the audit year we found a letter to the Board dated June 5, 2006, that stated that a 1st Source Bank certificate of deposit had matured on November 5, 2005, and was not earning interest. During this time the Board had lost the earnings on this certificate of deposit.
8. Appointed officials, as well as management, should become familiar with what might be considered potentially unlawful expenditures. The State of Michigan website has provided a reference for local government officials, employees and governmental auditors that address some of the questionable expenditures of local government.

Right. On time.

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We appreciate the courtesy and cooperation extended to us by the officials of the Paw Paw Lake Regional Joint Sewage Disposal Board and trust that these comments and suggestions will be received in the spirit of cooperation in which they are offered.

If we can be of any assistance in implementing any of these suggestions or if you have any questions regarding these or any other matters, please feel free to contact us.

Very truly yours,

Gerbel & Company, P.C.
GERBEL & COMPANY, P.C.
Certified Public Accountants